ProLogis European Properties™

ProLogis European Properties
Fourth Quarter Full Year 2008 Financial Results

Presenters: Peter Cassells, Simon Nelson
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Operator:
Good afternoon. Before we get underway, I would like to state that this Conference Call will contain forward looking statements. These statements are based on current expectations, estimates and projections about the market and the industry in which ProLogis European Properties operates as well as Management's beliefs and assumptions. Forward looking statements are not guarantees of performance and actual operating results may be affected by a variety of factors.

Peter Cassells, CEO will start with an overview of general performance and outlook and then he will cover financial performance. Finally Simon Nelson, Head of Asset Management will talk about valuations and operating performance. At the end of the Presentation we will be happy to take your questions from either the call or online.

Peter please begin.

Peter Cassells: Thank you and good afternoon everyone. Before we start, I would like to thank Gordon Keiser former CEO for his contribution to the business. He has been involved since the 1999 formation of PEPR, both in his prior role as ProLogis Treasurer when he led all of the PEPR's financings. And more recently in helping to identify and implement our strategic initiative, designed to address liquidity concerns and current market conditions. We are all grateful for his hard work, leadership, dedication and contributions and wish him well in his retirement.

In the face of further distress in the global financial markets and the deterioration in economic fundamentals, we are still able to report continued strong operational performance for our portfolio in the fourth quarter and for the year. We have kept our industry leading occupancy levels at over 97% throughout the year, reflecting one of our strongest years on record. Simon will talk more about our operating performance later.

I would now like to summarise the significant initiatives put in place and executed in the fourth quarter in the face of turbulent market conditions. As we announced in December we have suspended all future dividend payments as part of our deleveraging plan. As such distributable cashflow of €30 million for the fourth quarter has been retained. Similarly retaining projected dividends of between €110 and €115 million for ’09 will greatly enhance the liquidity profile of the company. Prior to suspension of the dividends in December, we distributed a total of 57 cents per unit or €180 million to investors. We have made determined inroads on our strategic initiatives, having agreed to sell our entire investments and future commitment at PEP Fund II.

In December we sold two thirds of our stake in that Fund to ProLogis for €43.7 million. These proceeds equate to a 30% discount to funded and unfunded commitments when compared to the September value of the investment. The unfunded commitment related to these units at the time was €348 million. As part of the transaction, PEPR retains a twelve month option to repurchase this two thirds stake at the same price per unit. Furthermore we have agreed to sell the remaining one third stake to six institutional investors for a gross consideration of €14.4 million. This combined with the elimination of the commitment to invest a further €174 million implies a 28% discount when compared to the December value of the remaining investment.

Whilst these disposals result in a €206 million right off to earnings in 2008, our priority was to eliminate an obligation to invest a further €522 million in PEP Fund II over the next 18 months. In and of itself a very significant reduction in our future capital requirement. In addition, the net proceeds of €55 million will be used to reduce outstanding debt, further strengthening our balance sheet.

As usual at year end, we appointed external appraisers to revalue the entire portfolio, although Simon will speak about the results of these valuations in more detail later, it will come as no surprise to learn that the portfolio has lost almost 17% or €700 million of its value since December 2007. This includes the impact of an unprecedented 33% decline in the value of sterling versus the euro over the year.

Therefore our earnings and NAV numbers have been impacted by the portfolio devaluations during the year as well as the loss and associated impairment taken in relation to the sale of the entire investment in PEP Fund II. The dramatic depreciation of sterling versus the euro over the last few weeks of the year especially was a further drag on results.

However, measures taken during the fourth quarter of last year shows that we can repay if required any debt maturing in 2009. And we are now positioning ourselves to address the 2010 maturities. As part of these initiatives we have now received approval to reduce the minimum net worth covenant on our €900 million senior credit facility. This amendment addresses projected portfolio devaluations and the '08 write down of our investment PEP Fund II. Given the other deleveraging initiatives our continued strong occupancy levels and our projections for the foreseeable future, we do not feel the need to amend any of our other financial covenants at this stage.

From a current liquidity standpoint, we have €77 million of cash on the balance sheet at the end of the year, of which €53 million is unrestricted. And €300 million of available debt under our revolving credit facility. Our first upcoming debt maturity is a €336 million CMBS loan, due to be repaid in full in July 2009. As reported previously, two large German mortgage banks have issued term sheets for up to €200 million with a number of other major German mortgage banks having expressed serious interest in joining these two in a larger group deal. We are in ongoing discussions with this Group and anticipate transforming these term sheets into firm commitments in the coming two months. We have heard a lot of talk about the collapse of the German covered bond or pfandbrief market which a number of German banks rely on as a source of liquidity. However both German banks have confirmed that they have already funding in place and are not reliant on that market.

As I mentioned a moment ago, in the event we cannot obtain a financing commitment by the July maturity date, we now have sufficient proceeds and funds available through cashflow from the suspension of dividends, the proceeds from the sale of our stake in PEP Fund II and the undrawn amount under the €300 million revolver available to repay the debt in full.

In 2010, we have €699 million of secured debt set to mature. This consists of €151 million secured bank loan due in March and two CMBS loans totalling €548 million maturing in May. The secured bank loan is with Hypo Real Estate with whom we are having discussions to extend the facility by three to four years at slightly reduced LTVs. The acknowledged high-quality portfolio with the historic cashflow performance, current LTV levels and the ProLogis global relationship are key positives that we believe will lead to a successful outcome in the coming months.

Our next focus will be on both CMBS loans maturing in May 2010. As we look at all options to address these and will report to you on progress on the next call.

Finally December 2010 sees the maturity of both three year tranches of the €900 million senior unsecured credit facility, of which €300 million is currently drawn. As disclosed previously, we intend to request a maturity extension for all of this in 2009.

During 2008, our share price performance lagged that of our peers. However following the announcement of our strategic initiatives in December, our share price improved significantly rising 60% on the day of the announcement and bringing our share price performance for ’08 and ’09 in line with our peers. We believe the share price will continue to respond as further progress is made on these initiatives.

Turning to the financials now. IFRS results for the fourth quarter and for the year decreased substantially from the comparative period last year. For 2008, we reported an IFRS loss of €577.9 million compared to €171 million gain in 2007. The key drivers are negative €483.7 million, non cash fair value accounting adjustment to our portfolio in ’08, compared to a €1.8 million decrease in ‘07. The €206 million write off related to the disposal of our PEP Fund II investment, increased provision for bad debt this year and higher interest costs associated with higher levels of debt. Once you strip out these and other non cash adjustments from our IFRS results to arrive at our EPRA defined earnings, you will see a more balanced view of our results for the year.

EPRA earnings for ’08 decreased €23.4 million to €127.7 million from €151.1 million driven by a €15.6 million decline in total revenue, due largely to weaker sterling, but also to change in portfolio mix and a one off receipt in the prior year. On a per unit basis, this was equivalent to a 13 cent drop from 80 cents to 67 cents per unit. It is worth noting that both IFRS and EPRA earnings for last year 2007, included an exceptionally large lease termination receipt of some €6 million or 3 cents per unit.

IFRS earnings and dividends in '07 also included €4.9 million euros or 2½ cents from escrowed sales proceeds dating back to 2003. Reconciliations of IFRS to EPRA earnings for both the quarter and the year are shown on page 12 of our earnings release.

As I mentioned earlier, we suspended the Q4 and subsequent dividend payments. Before that decision was made, we had paid 57 cents per unit or €107.6 million covering the first nine months of the year. Distributable cashflow of 16 cents or €30 million for the fourth quarter has been retained in the business. The total distributable cashflow generated for the year of 72 cents is slightly below our '08 guidance of between 76 and 80 cents per unit. Due to 1½ cent per unit decline in UK sourced income for the quarter, a 1 cent increase in capital expenditure toward the end of the year and a 1 cent per unit increase of additional tax expenses.

A reconciliation between IFRS earnings and distributable cashflow for the quarter and the year are contained on page 16 of today's release.

Now let me take you through some more elements of the results. Total revenue for the year fell €15.6 million or 5% from €380.9 million in '07 to €293.3million. The key drivers of the fall were firstly the net loss of €10.7 million of rents related to the disposal of the Garonor portfolio, offset by additional rents from 16 properties acquired in 2007. Secondly the weakness in the sterling exchange rate has reduced UK rental income when measured in euro by €12.2 million. And thirdly the loss of €1.6 million of rental income this year from customer defaults during the earlier part of the year.

In addition 2007 as I mentioned included the receipt of a €6 million lease termination fee in the UK and these factors were offset by €13 million of income from increased rents and occupancy levels throughout 2008, rental levelling adjustments and the release to earnings of further rent indemnifications received when properties were originally acquired.

On the expenses side, our cost of rental activity which includes ground rent charges, property management fees payable to ProLogis as well as other non recoverable property costs, increased to €32.4 million from €28.6 million in '07. We made €1.8 million of property savings in property management fees for the year due to the reduction in the value and composition of the portfolio. This was more than offset by provisions of €3.2 million for bad debts during the year.

We have increased the scrutiny of rent receipts at this difficult time and we can confirm that we have received all rent invoiced to UK customers covering the first quarter of '09 and substantially all the rent invoiced to customers on the continent. In fact of the year end receivable balance, we have already received over 90% of invoiced rent.

Fund expenses for the year increased to €12.3 million from €11.1 million last year, relating to a €1 million non reclaimable VAT charge and €600,000 increase in portfolio valuation fees as we move to revaluing the entire portfolio twice a year. These increases were partially offset by the decrease in fund management fees payable to ProLogis, due again to the reduction in the portfolio value.

The €483.7 million in property fair value movements for the year are the result of the June and December revaluation losses combined, partially offset by the reduction in associated provision for purchasers cost. Simon will talk more about valuations shortly. Our next such valuation exercise will be carried out in June 2009.

The second largest impact on our results for the year is the write down and share of losses for PEP Fund II. At the end of the year we recorded a loss of €137 million following the disposal of a two third stake in PEP Fund II. And record a further €68.5 million impairment for the agreed sale of the final one third. In addition, we recorded a €76.8 million charge for the year, associated with our share of the IFRS results of PEP Fund II up to the date of disposal. On the positive side, our investment in PEP Fund II generated a €15.9 million dividend for the year, a time weighted on cash on cash return of 7%.

Turning to net financing costs, our finance income for the year increased by 11.5% to €5.3 million as a direct result of higher levels of cash deposits. Finance costs for '08 increased by 14% since last year from €101.8 million to €116.1 million. As well as pure interest expense, this line item also captures realised and unrealised foreign exchange movements and a charge for the amortisation of debt raising costs.

Interest expense alone, showed an increase to €108 million for the year compared to €95 million last year. Although we incurred no further borrowings during the second half of the year, the increase in costs can be attributed to a combination of increased debt used to finance our €244 million investment in PEP Fund II for the year and increases in both the European and UK interest rates over the last 12 months, partially offset by the weaker pound over the same period.

Our weighted average interest rate for the year increased marginally to 5.3% compared to 5.1% for ’07 and we continue to have over 65% of our debt balance at fixed rates of interest. As our reliance of this large proportion of the fixed rate debt is eroded by upcoming maturity, we do expect to benefit from the recent substantial reduction in EURIBOR and LIBOR interest rates.

Amortisation charges related to transaction costs incurred in raising debt have decreased substantially from €12.9 million in ’07 to €6.4 million in ’08 as a result of the redemption of two CMBS loans in the second half of 2007.

Looking at our capital structure, our balance sheet remains in good shape with loan to values at the year end of 55.9% once unencumbered cash on hand is taken into account. As a result we remain within our FCP regulation limit of 60% and can confirm that we also remain compliant with all our covenants. More details on each of these is provided on pages 6 & 7 of today’s news release.

Our current income tax charge for the year of €23.6 million represents a 12.4% increase over the €21 million charge for ’07, largely due to the finalisation of prior year tax assessments. This has resulted in an effective tax rate of 15.7% for the year compared to 11.4% for ’07.

As commented on at the beginning of the call, our IFRS and EPRA net asset values at the end of ’08 were significantly impacted by the large portfolio devaluations during the year, the write-down of our investment in PEP Fund II and the impact of the weakening sterling. EPRA NAV fell 36.6% over the year from €12.65 per unit to €8.02 per unit at the end of the year.

Finally, turning to guidance for ’09. We expect to see further deterioration in EPRA earnings to between 55-60 cents for the year. This decline is based on our projections of minimal rent growth, further weakening of sterling, stable occupancy levels and property sales. In addition, PEPR will continue to incur interest expenses on the debt used to finance the investment in PEP Fund II without receiving any further dividend payments to compensate.

IFRS losses in '09 are anticipated to be between 85-90 cents per unit, as they will be further impacted by expected future portfolio devaluations in '09.

Although we do not expect to pay out any dividends for '09, we have projected a distributable cashflow for the year to be between 55-60 cents per unit. This cashflow will be used to further deleverage the business.

Whilst the '08 results were disappointing and we are cautious about the outlook for '09, we have taken substantial steps to ensure that we will meet our refinancing obligations for the coming year and weather the current turbulence in the credit markets.

With that let me hand you over to Simon to discuss operations and the European markets in which we compete.

Simon Nelson: Thank you Peter. Our focus on maintaining portfolio occupancy rates continues to yield results with the ProLogis team concluding 22 leases in the fourth quarter for over 182,000m^2 of space. 12 of these, covering 155,000 m^2 were renewals with existing customers, such as Fiege in Hungary, Geodis in the Netherlands and Sainsbury's in the UK. Eight new leases were signed for a total of 15,000 m^2 of which six were in central Europe. Finally two leases were expanded to include an additional 12,000 m$^{2.}$

Over the year as a whole, we signed lease agreements for over 660,000 m^2 compared to 507,000m^2 in 2007. As a result occupancy levels across the 246 buildings in the portfolio at the end of the year, stood at 97.3%. Of the 27 lease breaks and expiries during the fourth quarter, only seven actually resulted in vacancies, representing a total of just under 21,000 m^2 and of this, 4,000 was released immediately.

Looking into 2009, of the 30 lease breaks or expiries due in the first six months of the year, covering 243,000 m^2 we already know that 84% by rental value will remain in place. Furthermore the retention rate for leases breaking the third quarter of 2009 is already a minimum of 69% on the basis of agreements already in place with occupiers. This again could rise to over 80% if the four remaining leases with potential breaks all hold over.

These high levels of retention result from an ongoing effort to anticipate potential departures as early as possible and to manage a solution that works for both parties. We strongly believe that this is a fundamental step towards preserving value in a difficult market. And the continue level of high occupancy is a testament to the leasing and management teams across the various countries.

In the first half of the year, we sold two non core assets for a total of €11 million as part of our usual asset recycling programme. As we have said in the past, in ordinary circumstances we would expect to recycle €75 to 100 million of assets per year, roughly 2-3% of the portfolio annually. Whilst this process has slowed in the current investment market, as the number of investors active today is reduced by the scarcity of available bank finance, there are still buyers out there and we continue to have discussions with selected parties on various assets within the portfolio.

Following the two disposals and the year end revaluation, the portfolio now comprises 246 distribution facilities, covering over 5.2 million m^2 across 11 countries with an open market value of €3.4 billion. The risk profile remains defensive with a diversified high quality customer base and over six years to lease expiry on average.

On the valuations, we recorded a 9.2 decrease in market value between June and December, excluding portfolio disposals and currency impacts. With these factored back in, the portfolio value fell 12.8% to €3.4 billion down from €3.9 billion at the end of June, and down 16.9% from €4.1 billion at the end of 2007.

As mentioned previously, there have been very few market transactions, particularly in our sector, rendering the valuation process difficult. But we are satisfied that these numbers are an accurate reflection of current market conditions. Once again, the value of UK properties recorded the largest decline down 14.8% to £538 million from £632 million at the end of June and down 22.1% over the year. These results were further impacted by the weakening of sterling which itself decreased 33% against the euro during the year. The total UK values in euro terms therefore fell by 29.7 % to €565 million from €803 million at the end of June and down 41.5% from €966 million at the end of 2007, including currency movements.

Over the year the gross yield on our UK assets increased by 180 basis points to 8.7% up from 6.9% at the end of 2007. UK assets now represent 16% of the entire portfolio.

The decline in value of the continental properties also accelerated during the second half of 2008 falling 8½% overall to €2.9 billion, from €3.15 billion at the end of June. Central and Northern European assets showed similar valuation declines of 9.3% & 9.4% respectively for the second half of the year, whilst Southern Europe showed slightly greater resilience with a decline of 7.4% as values had started to move earlier in these markets. For the year as a whole the value of the continental assets was down 9.4% overall from €3.18 million at the end of 2007 with a gross yield increasing to 7.9% from 7.3% at the end of June and 7.1% at the end of 2007.

It is as yet too early to say when this fall in market values will ease and we must brace ourselves for further declines during 2009. We do still see a significant amount of investment capital waiting in the wings for values to stabilise before going back to the market, although their interest is ultimately going to be predicated on the easing of the credit markets.

Investment interest is firmly focused on prime assets only and yields on secondary assets continue to slide still further with the spread between prime and secondary investments widening significantly over the year. Again I should confirm that we consider our assets to sit firmly in the prime category in terms of their age, specification and location.

We saw two cases of tenant default in the portfolio during the fourth quarter, one in the Czech Republic representing just over 5,000m^2 and one in Spain for 8,500m^2. In the first case the space has been re-let on a short term lease to an adjacent occupier. The 2008 amounts not received from these tenants have been provided for in the accounts for a total of €586,000.

Turning to the overall market outlook, the logistics sector did in fact hold up relatively well during 2008, compared to other asset classes and considering the escalation of the global credit crisis and weakening economic fundamentals. There was still fairly sustained occupier demand in most markets with overall take up for the year only showing a minor decline from 2007 levels. However, customers are beginning to take longer to make decisions and are requesting shorter, more flexible leases. And economic forecasts suggest we should be extremely cautious about future levels of leasing.

On the supply side, new space will become scarce as the year progresses as speculative development has essentially been shut down across all markets and even build-to-suits have slowed due to lack of financing and higher yields. This combined with the costs associated with moving, means that occupiers are more likely to stay put in their current premises, which is a trend we have been seeing.

Looking at the four regional markets and starting with southern Europe, France is now seeing rising unemployment with the economy forecast to contract for the first time since 1993. From a logistics perspective, demand is slowing in secondary markets, but has remained relatively stable in the more established locations. Overall take up in the market was only around 5% lower than in 2007 which was a record year. Headline market rents across the board have stayed fairly flat although incentives have been increasing. However in place rents continue to be linked to the cost of construction index, which this year rose by over 10% at one point. Industrial yields have been softening throughout the year in line with other parts of Western Europe. We are currently fully leased in France.

Despite the Italian economy sinking into recession and rising unemployment, market occupancy in Italy was over 94% at the end of the third quarter, up from just under 93% at the end of last year. However occupier demand in Italy has slowed for all but prime location and rents are still under pressure. We have one warehouse of 20,000m^2 vacant in Piacenza, near Milan.

Spain's economic problems have been well documented, with a slowdown in GDP combined with a high level of personal debt, resulting in a sharp correction in consumer spending. The effect on the logistics sector is reduced demand as occupiers become more cautious. However, rents in the prime markets of Madrid and

Barcelona have remained unchanged as yet, given limited supply. In line with the rest of Europe yields continue to soften and are expected to move out further. We are effectively fully leased in Spain.

Moving on to Northern Europe, the picture is similar with most countries either in recession or on the brink. The slow down in German exports has led to reduced demand for logistic space. Rents have stabilised after increasing earlier in the year. Demand in the Benelux region has also slowed, although prime space and locations are holding up well given the relative scarcity of supply. Again, rents have largely remained stable, while yields have increased between 50-100 basis points across the board since the end of last year.

Economic conditions in the UK have deteriorated at a dramatic rate with consumer sentiment at historic lows, increasing unemployment and rapidly falling production figures. Unsurprisingly, demand for warehouses has slowed. Customers are taking more time to complete transaction and they are asking for shorter leases and more incentives. The market correction started earlier in the UK and as a result the movement in yields has been the most significant. Prime yield for logistics space increased between 75-100 basis points in Q4 alone, taking the overall rise in cap rates to close to 300 basis points since June 2007.

Finally and in some contrast, the central European market continued to show significant activity right up to the fourth quarter. However with economic forecasts now being halved for 2009 and 2010, we also expect the volume of transactions to start to decline in these markets.

Poland still dominates the region and continues to see the most activity with take up in 2008 of over 1½ million m^2. Demand is now softening slightly and rents are stabilising, having increased into the second half of the year. Demand in the Czech Republic and Slovakia has decreased in response to the slowdown in the automotive industry in particular. We see market vacancy rates beginning to increase in these areas.

Although the logistics market has remained the most resilient of the commercial sectors in Hungary, the contraction of GDP is also hitting domestic demand. The major international logistics companies still make up the majority of demand with

Budapest remaining the most active market but vacancy rates are edging upwards and we anticipate further pressure on rents and yields during the year.

Overall, the economic forecasts across all of the European countries makes fairly depressing reading and it would be foolish to pretend that 2009 is not going to be a difficult year across all property sectors as the effect of the financial crisis make themselves felt on the real economy and in turn on the demand side of the property markets. However, before handing back to Peter, I would like to put across three factors that I see as important in understanding the effect of these difficulties in our portfolio and our strategy in dealing with them.

First, we have focused and will continue to focus on occupancy levels in our portfolio. We have the benefit of the ProLogis platform with teams in front of our customers every day with a clear mandate to anticipate and resolve any potential issues that might lead to future vacancy. Customer relationships will be key in keeping our buildings full and this is our number one priority from an asset management point of view for the coming year.

Second, we are monitoring the rent payment schedule extremely closely. In the current economic environment, it is inevitable that some customers are going to be under pressure and the level of defaults is likely to increase. Early warning of this enables us to deal with the problem and take appropriate steps as soon as possible.

Finally, we anticipate a sharp decline in the new supply of logistics buildings as the development pipeline has been shut down almost entirely across all of the European markets, with even turnkey or build-to-suit projects struggling to find financing. This means that by the second half of this year, there will be a significant reduction in availability of alternative space. With investment yields having risen significantly, any future development is going to require significantly higher rental values in order to be viable. Both of these elements will help to sustain the attraction of well located existing distribution space such as we have across our portfolio.

With that let me hand back to Peter

Peter Cassells: Thanks Simon. In this ongoing, challenging environment, it is difficult to project optimism. However we are making good progress with the strategic initiatives that we talked about in December to improve liquidity and address current market conditions.

- We have amended our most pressing debt covenant to provide us with additional headroom.
- We have disposed of our investment and future commitments in PEP Fund II, significantly reducing our future debt requirements.
- We have suspended dividend payments to aid deleveraging and
- we are progressing with specific targeted discussions to refinance ’09 and 2010 debt maturities.

These activities combined with excellent customer relationships and our prime industrial portfolio leave us confident of returning the best possible long term performance to our investors.

Thank you. I would now open it up for questions.

Operator: We will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel the request, please press the # key.

Our first question comes from Ruud can Maanen from Rabo, please ask your question.

<u>Question 1: Ruud van Maanen, Rabo:</u> Good day to you all and thank you for the presentation. I have a couple of questions. Start with the first. How come the effective tax rate has significantly increased in the last year and what do you consider a normal level going forward?

Peter Cassells: Well hi Ruud, it’s Peter here. The tax charge for ’09, ’08 I beg your pardon, has had a couple of catch-up’s from prior year assessments in it, about €2½ million. So I think the effective tax rate would on an ordinary basis be between 13-14% would be a good run rate. The comparison with ’07 is obviously deflated because it does not have those tax expenses in there. So that shift from 11-15 is quite dramatic. So I would think around the 13-14% level would make more sense.

Ruud van Maanen: Okay, then my second question was, is there an extra tax being paid currently on vacant properties in the UK?

Peter Cassells: There will be after six months. We are starting to be invoiced for that now in '09. I think even in the latter part of December it started. But that is one of the costs of vacancy that we are trying to avoid.

Simon Nelson: We have one asset in the UK, about 23,000 m^2 from memory which will become, for which empty rates will be applicable from the beginning of this year as Peter said, yes. We are working on solutions on that at the moment.

Ruud van Maanen: I had a question regarding the tenant defaults in the Czech Republic and in Spain. What kind of tenants could you, are they the larger ones or the family?

Simon Nelson: Again these were smaller companies. These were companies to which we did not have other exposure in the portfolio, again one off small company situations, similar to the three others that we talked about after Q2 of last year.

Ruud van Maanen: When do you expect further from the German market to open up again in 2009 or, I heard some deal was being done in recent months. What is your expectation?

Peter Cassells: Well again, it is a hard one to predict. We are very cautious with you know with discussions with the German banks, who historically have relied on the pfandbrief to give them the off balance sheet excess lending base. So our discussions with the banks focused primarily on their own on balance sheet financing possibilities and have limited their term sheets to us to what they can do on their own balance sheets, so not relying on the pfandbrief market. So if it does come back and when it does come back, it will be an added benefit. But right now we didn't want to rely on it given what has happened since early October when Hypo went first into difficulty.

Ruud van Maanen: And regarding asset disposals. Earlier in 2008, you mentioned about €100-150 million in asset disposal programme and now around €75-100 million. If this is only as a result of asset write downs in the current market or has the number of target assets been reduced?

Peter Cassells: We actually targeted or identified a much larger pool of assets in Q3-Q4 that we were prepared to sell if necessary. However the other measures that we took, that you know about, in Q4 have removed that particular obligation. The €75-110 million, yes it is the lower number than the 150. It is not due to the write down in values of the assets, it is just that in the current market, we are being a little bit more prudent in how much we are looking to sell. Ideally, we would continue to carry on a, the part of the ordinary turnover of the portfolio. If we can do 100-150 we will do so.

Ruud van Maanen: And has there been any discounting in the letting markets that are facing challenging conditions right now?

Simon Nelson: Well we're seeing pressures on rents pretty much across the board as I have just been setting out. It is coming both from the supply side and the development side. But once again, as we have been saying, the overall markets are not in a fundamental position of disequilibrium. There is not huge amounts of over supply in the logistics market. While you will find one or two isolated cases of developers caught out carrying buildings and willing to drop rents significantly, that is not what is driving the current market at the moment.

Ruud van Maanen: Right, that will be all for now, thank you very much.

Operator: Your next question comes from Tom Gibney from JP Morgan.

<u>Question 2: Tom Gibney, JP Morgan:</u> Hello. Good morning. Just a very quick question to begin with. On the CEO's departure and it is sort of a second change of CEO in not so many months. Was it always intended that Gordon would come in and use his experience as Treasurer of ProLogis to sort out your financing problems and then depart or was it a surprise when he left for retirement early?

Peter Cassells: Well that was definitely part of his skill set. I mean he had been involved as I said, from the very beginning of PEPR and the second fund and even a lot of ProLogis's debt initiatives. So in discussions with the Board, it was decided that it was an appropriate time for Gordon to retire and you know, we had always looked for in the back of our minds, we had a European solution in our minds as well. So the timing was quite fortuitous.

Tom Gibney: Okay, and then just on the limitation on dividend payments. You said in the last conference call that the dividend payments were being limited by the bank facilities. How does that agreement work exactly or in virtue of what covenants are those dividend payments being limited?

Peter Cassells: They have hinged on the net asset value or net worth test that we have mentioned we had changed at the end of the year. Essentially in that covenant, we must stay above €1.1 billion, that is the reset covenant from originally €1.95 billion. And they have indicated and obviously we agreed, that we would suspend dividends until we have our net worth test for three quarters in a row greater than €1.5 billion. So that would be a triggering point in the future for us to resume dividend payment. Obviously there are other elements to that as well. Cash available is obviously a big thing. But we will, that is the primary tests that we have to at least meet.

Tom Gibney: Okay. And on the five bank covenants you mention in your press release, can you just say whether they are incurrent covenants or maintenance covenants?

Peter Cassells: What do you mean by incurrent?

Tom Gibney: Well I mean if all that happens is your portfolio declines in value, will those covenants be breached? Or does it require you to actually you know do an action that causes those to be breached, such as raising debt and buying properties for example?

Peter Cassells: Well you are right, disasterous devaluations again would obviously eat into LTVs and the net worth tests headroom that we have right now. We have never had any issues with the interest coverage ratios or any of the operational side of things which is the irony of it all, but there are ways we can repay secure debt for example that would help with any of our unencumbered tests and also with some of the LTVs, but there are ways we can manage the composition of the balance sheet in order to address any foreseeable breaches.

Tom Gibney: Okay and the consequences of breaking those breaches, it is not, you don't have any interest step ups or anything? It would be you know, it would be an issue with the banks in terms of potential default?

Peter Cassells: Well the leverage limits we can exceed for short periods of time. So there are I guess cure periods in which you can rectify. So it is the same with our overall loan to value levels under our Luxembourg regulations. And there are some step ups on interest rates. But essentially a lot of these are curable situations.

Tom Gibney: Okay, and I mean given the outlook for you know for the portfolio valuations in general and all of that, why did you not choose to address the LTV covenants to give yourself a little bit more headroom at the same time as addressing the tangible net worth covenants?

Peter Cassells: There were a couple of issues. We ran a number of scenarios last year in looking at, what we needed a change and at the time, given the time constraints, the net covenant one was the most pressing. But with the advent of disposing of Fund number two and ceasing to pay dividends, the pressure on others went away to a large degree. So we have a lot of cash and cash sources coming up that will help us to take the edge off some of the debt side and obviously help with that part of the equation.

Tom Gibney: Okay, thank you.

Operator: Your next question comes from Boudewijn Schoon – Kempen.

Question 3: Boudewijn Schoon – Kempen: Good afternoon. I have just a few questions. Regarding the PEP Fund II, you mentioned it agreed to be sold. I mean you already commented on it, but does that mean there are any execution risks remaining?

Peter Cassells: Are there any lawyers on the call? No, we have agreed all the prices and all the conditions, all the terms. It is a case of documents being signed literally as we speak. I need to sign one of two more documents today and possibly the final ones tomorrow. So there is that very, very slight element of execution risk. As you said, the buyers were a combination of six different parties. Two of them taking over two thirds and they are across the line and they have signed the deal and virtually delivered. So we do not, I can't say 100% we have eliminated all execution risks, but we will issue a note, hopefully at the end of this week or first thing next week, confirming the completion of that sale.

Boudewijn Schoon: Okay, thank you for that. Now you mentioned you are planning to renegotiate. You elaborated on renegotiating the unsecured debts during 2009, In Hypo Real Estate, to renegotiate this loan, do you have any idea what kind of a cost could be incurred on that?

Peter Cassells: Well I don't want to give too much away, if, obviously they are listening on the call, but we have had term sheets in the last couple of months of last year with margins ranging from 140-175 basis points over Euribor so again it is anybody's guess where the final terms will come in those transactions and I don't want to pre-empt anything by giving a larger number away. So we will get back to you when we know more ourselves.

Boudewijn Schoon: Okay. And the Hypo Real Estate that refers to the 151 million bank loan, right?

Peter Cassells: Correct, that is currently at 135 basis points and maturing next March.

Boudewijn Schoon: And a bit of a follow up question maybe, but as you are renegotiating the duration of these loans, are you indeed also going to negotiate the covenants?

Peter Cassells: Well on the Hypo loan there were very few covenants. We have never been near breaching, even the LTV and that one is in the 70s in terms of the covenant. And we have always been comfortably within the, above the interest coverage ratio. But you are right. With the other unsecured senior credit facility. At the time of requesting extension, there are many things you can put into that mix that you know can make it attractive for banks to agree to the extension. But again that remains to be seen, there are 20 different banks in that group. Probably 20 different positions and 20 different views on where they want to be. So again, I don't want to pre-empt anything by giving our position away, but we will touch upon all of those things when we need to.

Boudewijn Schoon: And you stated an IFRS expected loss for 2009, which should be related to portfolio declines valuations, can you give the more clarity on that? How much do you expect that the write down could be in 2009 related to that IFRS outlook?

Peter Cassells: Well it is very hard to say. We have obviously put numbers in our model, probably on a very conservative basis, looking at maybe catch-up declines in the continent of Europe as Simon mentioned early on where the UK has been through a harsh and fast yield expansion. We have looked at each of the four regions and knowing we have a valuation exercise to take to effect in June and December, we are probably going to see another 7-8% maybe decline in values over the next 12 months or so, but again crystal ball gazing from here and it depends on where sentiment is at the time. Unfortunately there is not many transactions that people can hang their hat on to say you know things have bottomed out or there is further to go. But it is a difficult one to give an accurate number on.

Boudewijn Schoon: Okay, yeah understood thank you. Maybe one last. I saw in the P&L in impairment on investment available for sale end of the year. Could you elaborate a little bit more, does this, I mean I assume that this does not relate to the remaining sale of PEP Fund II, but assets in the standing portfolio, is that correct?

Peter Cassells: No, no, it is in fact what you said, it is the write off of the remaining one third investment fund number two. So we know the sales price of the remaining one third and we had a book value. So we have written off the difference all in '08 so that position is taken entirely in 2008.

Boudewijn Schoon: Alright, thank you very much.

Operator: Your next question comes from Bart Gysens from Morgan Stanley, please ask your question

Question 4: Bart Gysens, Morgan Stanley: Hi, Peter. You mentioned this before, but I failed to write it down, you mentioned the total taken on the PEP Fund II disposal and the write off on the last 10% and also you mentioned therefore the amount of capital contributions in PEP Fund II, you are getting out of. Would you mind repeating those two numbers please?

Peter Cassells: Yes we are getting out of a future capital commitment of €522 million and over a very short period of time between now and August 2010 was the final call date of all that money. And in the '08 numbers we have three lines of losses reported in '08 and the first is the share of the loss of the associate, our investment fund number two, just on the ongoing 11½ months of our ownership in that company. And then we also took a loss on the two third sale that actually took place in December and we have since then provided for an impairment on the remaining one third that we are selling right now. So those three elements combined to €76, €137 and €68 million in our '08 financials.

Bart Gysens: Great, that's all. Thank you very much for making that clear.

Operator: You have a question from the line of Osmaan Malik from JP Morgan. Please ask your question.

Question 5: Osmaan Malik – JP Morgan: Most of my questions have actually been answered, but just quickly on this PEP II Fund, just once more, can you tell me exactly what the €48,496 on the balance sheet at December 2008 refers to please?

Peter Cassells: Yes that is combined of two pieces. One is €38 million remaining equity call that we did not invest at the end of the year. So we have since done that but recovered that money from the new buyers. So it is a part of the position we sold. And the remaining €10 million is the net proceeds of the sale of the final one third. So you have €10 million and €38 million giving you that end of year position.

Osmaan Malik: Okay, so do we need to write this off for next year?

Peter Cassells: Well the €38 million is offset and this is thanks to the accounting, the €38 million that is included in the €48 million is also included in the due to related parties number on the balance sheet. If you look at the bottom of the balance sheet, there is a €40,387 number, that includes €38 million that we have to pay to Fund II as at the end of the year and the €48 million investment, included that as part of an investment. So effectively your net number is 10 million and that is what we will get in cash in the coming days. So there is no write off to be done.

Osmaan Malik: Okay, thanks very much.

Operator: We have a follow up question from the line of Tom Gibney, JP Morgan

Question 6: Tom Gibney: Hi just a question on the tenant defaults, I wonder if you could just give us a bit more background about what led to the defaults, because I remember in the first half of last year you said that they were, one of it was due to a cancellation of a contract by Coca Cola. You know could you also say whether they are or confirm if they are in the third party logistics sectors as well?

Simon Nelson: Yes, in the Czech Republic it was third party lLogistics. But again it was a small company, occupying a small amount of space. It was 5,000m^2 and I think general market conditions is the answer there. And similar to Spain, 8,558m^2 of space in our park in Madrid. Again a small company. I think we said in, after the June results that clearly we were looking at this sector of our portfolio. It represented a small percentage around 3% of our overall exposure to the small companies of this type. Unfortunately we were right in identifying this area of the portfolio as an area of risk and so those are the two more that we have at the end of the year.

Tom Gibney: So you would say that 3% of your overall rent roll is exposed to companies like these one that have defaulted?

Simon Nelson: Yes, less those 5 that already have.

Tom Gibney: Okay and then just lastly on asset sales. You said that you are under discussions for a number of, with regards to a number of assets, could you quantify that? I mean what is the book, the current book value of the assets about which you are having discussions?

Peter Cassells: Well we have a number of separate discussions. If I, again we would expect to do 75-100 million is the number that we have put out. Previously we have said 100-150. We have discussions that could get us to that number in total. But again, until it's done, I don't think, I don't want to be giving you a number to take home that is too specific. But it is going to be in that ballpark.

Tom Gibney: Okay, thank you.

Operator: There are no further questions. Are there any questions via the webcam?

Operator: There are no questions on the web.

Peter Cassells: Okay, thank you very much indeed operator and for all those questions. We will get around to meeting most of you or all of you in the next few days and weeks and if not we look forward to talking to you in April for the Q1 call. Thank you all.

End